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Tajikistan: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

April 19, 2011

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TAJIKISTAN: LETTER OF INTENT

April 19, 2011

His Excellency
Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431

Dear Mr. Strauss-Kahn:

I would like to express my gratitude to the International Monetary Fund (IMF) for its continued support of our economic reforms. Tajikistan is emerging from the worst of the global economic crisis. However, we are of the view that economic and financial risks remain, and that work must continue to address the damage caused during the crisis. Continued support from the international financial institutions (IFIs) and donors will be critical.

Economic performance in 2010 was strong. Real GDP growth registered some 6.5 percent, fueled by power production, construction, beneficial increases in cotton and aluminum prices, and higher remittances. This was a welcome recovery from low growth in 2009, and we will seek to foster this nascent recovery in 2011. We were not without challenges, however. Reflecting trends in international markets, food prices rose in the second half of the year, contributing to higher-than-expected inflation. Financial sector indicators also remain a concern, and we intend to devote more attention to finding a solution for this problem.

I am pleased to report that, with three exceptions (the continuous performance criterion on the non-accumulation of external payments arrears, and the indicative targets on government social spending and on liquidity loans from the NBT), we met all the quantitative targets for end-December 2010. Despite considerable external shocks, we managed to continue building international reserves through the course of the year, maintain a prudent fiscal stance, and meet our budgetary objectives for health and education spending as well as for critical infrastructure. Out of concern for meeting the overall fiscal target, however, we restricted the increase in public wages and salaries for 2010, and did not fill a number of vacancies, which contributed to lower social sector spending than expected.

Liquidity lending from the National Bank of Tajikistan (NBT) to commercial banks rose above the indicative target under the program. Part of this increase was linked to a decision to finance key food and fuel imports and ensure sufficient supply to the market as prices for these goods increased. Liquidity lending from the NBT to the commercial banking system continued to rise in the first two months of 2011, however, and we recognize the potential

risk that such lending could pose to inflation, the exchange rate, and the NBT balance sheet. We are committed to bringing such lending under control, as discussed below, to ensure a path for money growth that is consistent with macroeconomic stability.

With respect to structural reforms, all benchmarks for the second half of 2010 have been met, albeit with small delays for two of the benchmarks. The audited financial statements for the NBT were published on its website in September. In early January, we submitted to parliament a revised NBT Law, as well as a Law on Insolvent Credit Institutions. We are grateful to the IMF and the World Bank, respectively, for technical assistance in drafting these two laws.

We also continue to move forward in increasing transparency in the state enterprise sector. The Roghun OJSC published its second quarterly report on financial flows and operations on the Ministry of Finance website in December 2010, and we expect to hold the first shareholder meeting in May 2011. Work continues on the audit of Roghun OJSC, but because of the need to first carry out a survey of work in progress, we request the rephrasing of this benchmark from end-February 2011 until end-June 2011. In the meantime, however, we expect to publish the audited 2009 financial statement of Talco in the near future, and the audited financial statements for Talco Management by end June 2011 (a structural benchmark under the program).

We request a waiver for the non-observance of the continuous performance criterion on non-accumulation of external payments arrears. These arrears, which were linked to two government guaranteed loans, were cleared in a relatively short period, and the most recent installment on one of these loans was paid in advance. We have also instituted a new pledge agreement imposing a penalty interest on arrears for this loan, and will expand this practice to other borrowers. We are also seeking to institute a new accounting system for guaranteed loans to prevent accumulation of new arrears, and will enhance communication between the government, borrowers, and creditors. We will in future also continue to restrict the use of government guarantees, and have also requested a Debt Management Performance Assessment (DEMPA) from the World Bank. The end result will be a substantial improvement in our ability to track and deliver on external obligations and a strengthening of public financial management.

Looking ahead, we remain committed to achieving the reforms outlined in the Memorandum of Economic and Financial Policies (MEFP) of November 9, 2010. In this context, two points in particular are worth highlighting. First, we are working to enforce the presidential order of August 2010 requiring investors to repay cotton loans as part of the strategy to recapitalize the NBT. As committed, we will also produce this year an agreed schedule of government injections into the NBT (a structural benchmark for end-June 2011). Second, we remain committed to producing a strategic plan to reform the tax regime—with a view to broadening

the tax base, increasing tax revenue, and creating an environment conducive to private sector growth (a structural benchmark for end-September 2011).

In addition, and reflecting some of the problems noted above, we commit to the following measures:

- The recent surge in liquidity lending from the NBT to commercial banks will be contained and brought under tighter control in the course of the year. Future operations to finance imports for the strategic reserve will be handled through the budget. The remaining stock of liquidity loans will be reduced to ensure orderly money growth consistent with macroeconomic and price stability. The government will also refrain from directed lending.
- To protect the balance sheet of the NBT, better establish its role as a lender of last resort, and encourage development of an interbank market, applications for liquidity loans will receive greater scrutiny. The terms of these loans were tightened at the end of March 2011, by raising interest rates on liquidity loans to prevailing market rates. Strict observation of collateral requirements will also be enforced. The NBT will continue to work closely with the IMF on this issue.
- An action plan—consistent with IMF advice—to bolster supervision and strengthen the financial sector will be formulated and endorsed by the Board of the NBT by June 2011 (a structural benchmark). It will provide a sequenced process covering regulation, accounting of assets, provisions, and collateral, revaluation of these items, recognition of these changes in the balance sheet, and compliance with prudential regulations. Progress in implementing this plan will be monitored in coordination with the IMF.
- Subject to resource availability and with a view to strengthening commercial banks' balance sheets and enhance liquidity, the government bonds placed with commercial banks as part of the cotton debt resolution will be re-issued on market terms.

While recent data on macroeconomic performance are encouraging, we remain concerned about the recent surge in international food prices, and the potential impact on the poor. We ask the international community for assistance in this area, and look to the IMF and other IFIs for close support and coordination of measures to mitigate the impact of higher food prices on the most vulnerable segments of society.

We hereby request completion by the Executive Board of the fourth review under the ECF arrangement, and disbursement of the fifth loan totaling an amount equivalent to SDR 13.045 million. In parallel, we are seeking continued concessional support from other donors for the coming year to achieve the objectives laid out in the Poverty Reduction Strategy (PRS)

covering the period 2010–12. For the fourth review under the ECF arrangement we request a waiver for nonobservance of the performance criterion on the non-accumulation of external payments arrears. We also request the modification of the quantitative performance criterion on net domestic assets for end-June 2011 and end-December 2011, as well as indicative targets, and structural benchmarks described in the attached tables, the MEFP of November 9, 2010, and modification to the attached TMU, to enable us to monitor progress in implementing our reform agenda.

The Government believes that the policies set forth in this letter and the MEFP are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures and in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. We intend to remain in close consultation with Fund staff and provide timely information necessary for monitoring economic developments and implementation of policies under the ECF arrangement. In addition, the Government stands ready to take any further measures that might be required to ensure that the overall objectives of the program are attained.

Finally, in continuing with our commitment to transparency, we hereby request that all program related documents, including this letter, be published on the IMF website.

Your Excellency, please accept my assurances of my highest consideration,
/s/

Emomali Rahmon
President of the Republic of Tajikistan

Table 1. Tajikistan: Quantitative Performance Criteria and Indicative Targets under the 2010 Extended Credit Facility (ECF)
(In millions of somoni; unless otherwise indicated)

	2009		2010						2011			
	End-Dec	End-March	End-June		End-Sept.			End-Dec.		End-March		
	Act.	Prog. Act.	Prog. Act.	Prog. Act.	Prog. Adj. Prog. Act.	Prog. Adj. Prog. 4/ Act.	Prog. Adj. Prog. 4/ Act.	Prog.				
<i>Quantitative Performance Criteria (PC):</i>												
1. Ceiling on cumulative flow of net domestic assets of the NBT 1/ 2/	...	-430	-452	-344	-464	-108	-414	-447	226	-80	-480	-6
2. Floor on cumulative flow of total net international reserves (in millions of U.S. dollars) 1/ 2/	...	3	21	12	26	33	103	119	48	111	118	14
3. Zero-ceiling on new lending from the NBT to private sector (continuous quantitative performance criterion) 2/	...	0	0	0	0	0	...	0	0	...	0	0
4. Floor on cumulative overall fiscal balance of the general government excluding foreign-financed Public Investment Program and related grants 2/	...	-53	6	-135	-7	-192	...	-53	-247	...	-110	-66
5. Ceiling on general government wage and pension arrears (continuous quantitative performance criterion)	...	0	0	0	0	0	...	15	0	...	0	0
6. Ceiling on contracting or guaranteeing of any non-concessional external debt (continuous quantitative performance criterion)	...	0	30	0	15	0	...	0	0	...	0	0
7. Ceiling on disbursements of concessional external financing (in millions of U.S. dollars) 2/	...	122	23	173	59	229	299	158	272	342	255	77
8. New external payments arrears (in millions of U.S. dollars, continuous quantitative performance criterion)	...	0	0.110	0	0.028	0	...	0.002	0	...	0.000	0
<i>Indicative Targets (IT):</i>												
1. Floor on tax collection 2/	...	989	929	1,997	1,955	3,102	...	3,095	4,428	...	4,438	1,223
2. Floor on social and poverty-related expenditure 2/	...	559	405	1,118	1,010	1,680	...	1,539	2,351	...	2,222	710
3. Ceiling on gross equity sales and contributions for Roghun (in millions of somoni) 3/	...	800	799	850	820	870	...	820	880	...	830	880
4. Ceiling on loans to banks for liquidity purposes by the NBT (stock)	...	179	154	153	78	150	...	265	147	...	190	140
<i>Memorandum items:</i>												
Program exchange rate	4.37											
NDA of the NBT (in millions of somoni) 1/	1,922	1,492	1,470	1,578	1,458	1,814	1,508	1,475	2,148	1,842	1,442	1,836
Net international reserves (in millions of U.S. dollars) 1/	239	242	260	251	265	272	342	358	287	350	357	365

1/ At program exchange rates of end-December 2009.

2/ Cumulative from January 1 of the year; performance criteria for end-June and end-December 2010, and indicative targets other dates.

3/ Cumulative from January 1, 2010.

4/ Floor on cumulative NIR is adjusted and revised.

Table 2. Tajikistan: Quantitative Performance Criteria and Indicative Targets under the 2011 Extended Credit Facility (ECF)

(In millions of somoni; unless otherwise indicated)

	2010	2011				
	End-Dec	End-March		End-June	End-Sept.	End-Dec.
	Act.	Prog. 4/	Prel. Proj. 5/	Prog.	Prog.	Prog.
<i>Quantitative Performance Criteria (PC):</i>						
1. Ceiling on cumulative flow of net domestic assets of the NBT 1/ 2/	...	-6	-8	120	210	328
2. Floor on cumulative flow of total net international reserves (in millions of U.S. dollars) 1/ 2/	...	14	14	25	45	70
3. Zero-ceiling on new lending from the NBT to private sector (continuous quantitative performance criterion) 2/	...	0	0	0	0	0
4. Floor on cumulative overall fiscal balance of the general government excluding foreign-financed Public Investment Program and related grants 2/	...	-66	-66	-134	-208	-297
5. Ceiling on general government wage and pension arrears (continuous quantitative performance criterion)	...	0	0	0	0	0
6. Ceiling on contracting or guaranteeing of any non-concessional external debt (continuous quantitative performance criterion)	...	0	0	0	0	0
7. Ceiling on disbursements of concessional external financing (in millions of U.S. dollars) 2/	...	77	77	154	231	308
8. New external payments arrears (continuous quantitative performance criterion)	...	0	0	0	0	0
<i>Indicative Targets (IT):</i>						
1. Floor on tax collection 2/	...	1,223	1,223	2,470	3,837	5,478
2. Floor on social and poverty-related expenditure 2/	...	710	710	1,421	2,131	2,841
3. Ceiling on gross equity sales and contributions for Roghun (in millions of somoni) 3/	...	880	880	880	880	880
4. Ceiling on loans to banks for liquidity purposes by the NBT (average per quarter)	...	140	377	227	180	157
<i>Memorandum items:</i>						
Program exchange rate	4.40					
NDA of the NBT (in millions of somoni) 1/	1,164	1,836	1,156	1,285	1,375	1,492
Net international reserves (in millions of U.S. dollars) 1/	375	365	390	400	420	444

1/ At program exchange rates of end-December 2010.

2/ Cumulative from January 1 of the year; performance criteria for end-June and end-December 2011, and indicative targets for end-March and end-September.

3/ Cumulative from January 1, 2010.

4/ Valued at exchange rate of end-December 2009.

5/ Reflects staff discussions with authorities during February 2011 mission.

Table 3. Tajikistan: Structural Benchmarks for 2010

	Date	Rationale	Status
<i>Structural Benchmarks and Prior Actions for Third Review</i>			
Issue a government order to require cotton investors to start paying principal (in equal installments) and interest on their outstanding debt to the NBT	End-June	Key element of NBT recapitalization strategy	Met on August 12, 2010
Issue a tender for an audit of the 2008 and 2009 financial statements of Roghun OJSC by a reputable international firm.	End-June	Transparency	Met on June 30, 2010.
Issue a tender for an external audit of Talco Management's 2008 and 2009 financial statements by a reputable international audit firm.	5 working days prior to Executive Board Meeting	Transparency	Met on November 3, 2010
Roghun supervisory board report on a quarterly basis to the public about the sources and uses of funds, including detailed information on the contractors hired by Roghun OJSC, their owners, and the bidding process used to award all contracts.	5 working days prior to Executive Board Meeting and each quarter thereafter	Transparency and governance	Met on November 12, 2010 (Q1, Q2) Met on December 24, 2010 (Q3) Met on March 30, 2011 (Q4)
<i>Structural Benchmarks for Second Half of 2010</i>			
Publish the NBT's December 2009 audited financial statement together with the audit report on the NBT's website.	End-September	Transparency	Met on September 30, 2010
Submit to parliament a bankruptcy law for credit institutions.	End-December	Strengthen the banking system	Met on January 4, 2011
Submit to parliament a draft NBT law consistent with IMF staff advice.	End-December	Enhance central bank governance	Met on January 4, 2011

Table 4. Tajikistan: Structural Benchmarks for 2011

	Date	Rationale	Status
Banks not meeting established prudential criteria to submit to NBT for approval time-bound actions plans to become fully compliant with these standards, including correct provisioning for non-performing loans.	End-March	Financial sector stability	Met on March 31, 2011
Publish the audited financial statements of Roghun OJSC for 2008 and 2009 with the audit reports on the Ministry of Finance's website.	End-June	Transparency	
Expand the number of large taxpayers under the Large Taxpayer Inspectorate (LTI).	End-June	PFM / Revenue	
Issue a government resolution specifying a multi-year (2011-2018) schedule for injections of capital from the government into the NBT as part of the NBT recapitalization plan and in line with IMF recommendations.	End-June	NBT recapitalization	
Publish the audited financial statements of Talco Management for 2008-2009 together with the audit reports.	End-June	Transparency	
NBT Board to approve an action plan, in line with IMF recommendations, for addressing weaknesses in the financial sector.	End-June	Financial sector stability	
National Bank of Tajikistan to publish audited 2010 financial statement	End-September	Transparency	
Submit to cabinet a strategy for reform of the tax regime.	End-September	Revenue	
Fiscal risk statement related to condition of SOEs to be introduced as part of the published 2012 budget document	End-December	SOE governance	

**TAJIKISTAN: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES
(MEFP) FOR 2009–12**

November 9, 2010

I. INTRODUCTION

1. This memorandum outlines economic and financial policies of the Government of Tajikistan for 2010–12, and augments President Rahmon’s letter of intent and the memorandum of economic and financial policies dated May 20, 2010, focusing now on our policies for the remainder of 2010 and 2011. These policies are intended to serve as the basis for the ongoing IMF-supported program under the Extended Credit Facility (ECF).

1. Tajikistan now appears to be emerging from the global economic downturn of 2009, although the impact of external shocks continue to be felt in some sectors. Real economic growth rose to over 7 percent in the first half of 2010, with particularly strong performance in electricity production, construction, and trade and services. We expect real GDP growth to reach at least 5.5 percent for the year as a whole. Inward remittances have also rebounded, in line with the recovery in neighboring economies. Total inward remittances increased by about 25 percent year-on-year through June, providing welcome income support. Inflation has been subdued for most of the year, thanks to a benign global environment. However, we expect end-year inflation to reach about 9 percent due to the recent surge in wheat and wheat flour prices. Financial sector indicators have worsened—lagging the incipient recovery and reflecting continued difficulties in the external, agricultural, and state enterprise sectors.

2. In this environment, our program focuses on safeguarding macroeconomic and balance of payments stability, supporting the poor and vulnerable segments of society, moving ahead with key infrastructure projects to address Tajikistan’s bottlenecks in the energy sector, and accelerating structural reforms, including by strengthening governance of public sector institutions and enhancing the role of the private sector.

3. We have reached understandings with IMF staff on a set of prior actions for the third review, and on quantitative performance criteria, indicative targets, and structural benchmarks for 2011. Our policy framework continues to build on the measures that we implemented during the Staff Monitored Program, and draw on more recent work, such as the special audit of the National Bank of Tajikistan (NBT), the 2007–08 Financial Sector Assessment Program, the safeguards assessment, and technical assistance in tax administration and public financial management.

4. Our macroeconomic policies are based the government’s National Development Strategy for the period until 2015, and our Poverty Reduction Strategy (2010–12). In the short term, our program aims to maintain macroeconomic stability—which is a precondition for sustained high growth and poverty reduction. Structural reforms in financial, state-owned enterprise (SOEs), and agriculture sectors are designed to enhance the growth potential of our

economy over the medium-term. In addition, we intend to move forward with key infrastructure projects in the energy sector. We believe that these reforms will give rise to sustained higher rates of economic growth, which will in turn make the biggest impact on poverty. In this context, we are committed to the principle that planned increases in better-targeted social spending and associated recurrent costs be fully covered by revenue from tax, administrative, and public financial management reforms. Given limited fiscal space, we are working closely with the Donor Coordination Council to further streamline and prioritize the PRS.

II. MACROECONOMIC POLICIES

5. Within our overall macroeconomic policy framework, the construction of the Roghun hydropower plant (HPP) is of the highest strategic importance to address Tajikistan's energy deficit and thus lay the foundation for future growth and poverty reduction. This will be crucial to meet Tajikistan's growing energy needs, though additional generation capacity and significant maintenance on existing facilities is likely to be needed.

6. Construction of Roghun and its financing will impact our macroeconomic objectives in 2010 and beyond. The total cost of the project's first phase is estimated at around SM6 billion (\$1.4 billion, or 24 percent of 2010 GDP) of which around \$600 million would be imports. We have established a joint stock company (Roghun OJSC) with an authorized capital of SM 6 billion, 75 percent of which will be owned by the government. Beginning in January 2010, we offered equity to the public of up to 25 percent of the shares (SM 1.5 billion). Initial equity purchases and contributions yielded SM 800 million through March 2010. The Roghun advertising campaign was subsequently suspended in mid April. Since that time, a very small level of contributions have continued to accumulate (in the form of deposits of Roghun OJSC with commercial banks and a special treasury subaccount at the NBT), bringing the total level of shares sold to SM 820 million by end-June. We expect total shares sold to remain below SM 880 million by the end of the year. Through end-August, some 205 million of these deposits had been used to finance work on the project. Once the results of a techno-economic, social and environmental impact assessment of the Roghun project are available, we will revisit our financing strategy in close consultation with Fund and World Bank staff, and intend to request the World Bank to lead an international financing consortium.

7. A supervisory board, headed by the prime minister and consisting of government officials as well as representatives of private sector shareholders, oversees all financial aspects of the Roghun OJSC. The first quarterly report to the public about the sources and uses of funds, including detailed information on the contractors hired by Roghun OJSC, their owners, and the bidding process used to award all contracts will be published on the Ministry of Finance's website as of November 2010 (benchmark for end-June 2010). We tendered an audit of Roghun OJSC's 2008 and 2009 financial statements to a reputable international accounting firm at end-June (benchmark for end-June 2010). However we encountered

delays in finding a suitable auditor, and therefore now expect the first audit to be published by end-February 2011 (benchmark), rather than end-December 2010, as originally envisioned. Regular audits by a reputable international firm will continue on an annual basis. A first shareholder meeting will be convened by end-February 2011. In this context, we will abide by the principles set out in the OECD Guidelines on Corporate Governance of State-Owned Enterprises. In particular, we commit to equitable treatment of all shareholders and will, from October 2010 onwards, take all measures to enact registration of all minority shareholders and give them the opportunity to participate in major corporate decisions. Once profits allow, Roghun OJSC will make dividend payments to all shareholders.

8. Against this background, we have reached an understanding with IMF staff on macroeconomic policies for the remainder of 2010 and 2011. In the fiscal area, we will adhere to the deficit target of 1 percent of GDP for 2010 (excluding the externally financed public investment program—PIP) previously agreed with the IMF. For 2011, we will seek to achieve GDP growth of at least 5 percent, and limit year-end inflation to 7 percent. Given the need to balance pressing social and development needs against limited domestic resources, we intend to target a deficit of 1 percent of GDP. This will help to ensure that the economic recovery does not falter, and that the government can modestly increase social spending. We will protect social spending from expenditure cuts in case of unexpected revenue shortfalls, and use any additional donor grants (if forthcoming) for spending in this area. We will also closely monitor the overall deficit (including the externally financed PIP) closely to ensure debt sustainability. Monetary policy will continue to target reserve money growth as the nominal anchor, while we will maintain our flexible exchange rate regime. We aim to raise reserve cover from its current low levels by further accumulating net international reserves (NIR). In this context, the NBT will limit its interventions in the foreign exchange market to smoothing excess volatility.

9. In the medium term, we hope that a more favorable international environment will pave the way toward higher growth and external balance. In these circumstances we hope to significantly strengthen our international reserves position, and target a reserves coverage of 2 months of imports by 2015. In the fiscal area, we will balance the pressing spending needs in the social and infrastructure areas, while broadly aiming for overall fiscal balance (excluding PIP), with a view to keeping government debt below the ceiling of 40 percent of GDP that we have set in our debt strategy. In this context, we are committed to strengthen public debt management and reporting by public enterprises. Our strategy also addresses the fiscal impact of the cotton debt resolution (paragraph 13).

III. STRUCTURAL REFORMS FOR 2010-2011

A. Monetary and Financial Sector Reforms

10. A safeguards assessment update of the NBT was completed in mid-2010. The findings indicated that initial steps have been taken to address the risks identified by the

special audit on cotton sector financing, but that considerable safeguards risks at the NBT remain. Both the accounting and the organizational structure are still fragmented, and due to the weak internal audit function and an absence of any external independent oversight, access to broad and complete information has been restricted. Consequently, there is a need to further enhance data systems and the transparency of operational integrity. Restoring the credibility of the central bank and building the required capacity in key functions, such as internal audit and financial reporting will require more time. Under our NBT action plan (shown in Table 1) we are implementing the main recommendations of the special audit of the NBT, as well as recommendations of the safeguards assessment A task force, chaired by a non-executive Board Director, to assess progress on these reforms on a semi-annual basis was appointed in June 2010. To ensure transparency and accountability, we are also fully committed to semi-annual external reviews of the NBT's net international reserves.

11. Amendments to the NBT Law in 2009 addressed key shortcomings that needed immediate action. With the objective of bringing the law in its entirety in line with international practices, we initiated an internal review in July 2010 and have also received input and recommendations from an IMF technical assistance mission in October. We intend to submit to parliament a draft NBT law consistent with Fund staff advice by end-December 2010 (benchmark), with a view to adopting the law by June 2011.

12. Our NBT recapitalization strategy balances the NBT's needs (strong balance sheet, instruments for monetary policy) and the government's interests (minimize fiscal costs). As part of the strategy, the government has resumed servicing the recapitalization bonds held by the NBT, and transferred deposits from the Multilateral Debt Relief Initiative (MDRI) from government accounts to the NBT. The NBT has in turn resumed paying interest on government deposits. In addition, the government will make annual capital injections into the NBT over the coming eight years, starting in 2011. A presidential decree was issued in August 2010 requiring cotton investors to begin paying quarterly principal (in equal installments) and interest on their outstanding debt to the NBT (benchmark for end-June 2010). Bilateral agreements with 10 of the 12 investors have already been signed and we expect payments to begin by end-September. To contribute to its recapitalization, the NBT continues to work on improving its reserve management practices. An updated strategy, taking into account progress to date and changes in market conditions, will be completed by end-2010 with IMF assistance—the recommendations of which will be accounted for in the official 2011 budget.

13. In its monetary policy operations, the NBT will continue to refrain from issuing new credits to the private sector, except for liquidity purposes or in cases of bank distress or failure (lender of last resort). All lending to commercial banks and nonbank financial institutions is restricted to the NBT's short-term liquidity facility. In consultation with IMF staff, we also adopted in mid-year a regulation establishing a remunerated deposit facility with the NBT to serve as the only deposit facility available to banks to increase the NBT's flexibility in managing its excess liquidity.

14. We seek to strengthen Tajikistan's financial sector with a view to reinvigorating private sector credit growth. The NBT monitors closely potential vulnerabilities in the banking system, paying close attention to banks' loan classification—including through on-site visits—and the Uniform Bank Performance Reports. Banks' asset quality deteriorated in 2010, impeding their scope for credit extension. Financial sector indicators have continued to show weaknesses, with a small number of banks consistently violating prudential rules (including on single party exposure limits and reserve requirements). To address these issues, the Ministry of Finance issued in May 2010 some \$90 million (SM350 million) in recapitalization bonds (as part of the cotton debt resolution) to commercial banks to improve their asset quality. When resources permit, we will review the terms of these bills with a view to enhancing their liquidity and value as collateral. By end-December the NBT will also submit to parliament a bankruptcy law for credit institutions (benchmark) in consultation with IMF staff, thereby filling a gap in our commercial bank legislation. The NBT will also require those banks not in compliance with prudential rules by end-March 2011 to develop and submit to the NBT for approval time bound plans to become fully compliant with all standards (benchmark), including correct provisioning for non-performing loans. We are also working with the World Bank to establish an appropriate anti-money laundering and counterterrorism financing framework (AML/CFT), and will submit an AML/CFT law to parliament by end-December 2010.

B. Reforms in the Fiscal Area

15. With assistance from the World Bank, we continue strengthening the civil service, and the health, and education sectors. In the health sector, this involves allocating resources in an asymmetric fashion favoring primary health care. In education, we are moving ahead with a per capita funding pilot system. In this context, we are working toward a competitive and affordable civil service wage system. We raised the minimum wage and pension in July, and in October raised public sector salaries in the context of introducing a new grade scale at five pilot government agencies. A new health insurance law has been passed that plans, over the medium-term, to introduce mandatory universal health insurance. We are also preparing a new pension law that seeks to reform the pay-as-you-go and the fully funded pillar, and generate an actuarially balanced system for migrant workers with pension entitlements. Implementation of these laws will be postponed until they have been fully costed, and integrated into our medium-term budget framework, and their poverty and social impact assessed.

16. We seek to moderately raise the revenue-to-GDP ratio over time to create space for pressing spending needs. Based on recommendations from the IMF and other donor organizations we have submitted a proposal to the cabinet for a tax administration reform strategy to be implemented during 2011-15, with a view to building capacity in tax administration and contributing to the improvement of the quality of tax administration services and better collection of budget revenue. This includes an initiative to increase the number of taxpayers covered by the Large Taxpayer Inspectorate (LTI) by June 2011

(benchmark). We have also prepared an initial inventory of existing tax and customs exemptions, and an assessment of their costs, and submitted to cabinet a proposal for reform of the exemptions regime. For 2011, we intend to undertake a review of tax policy, with a view to formulating a strategy for reform of the tax regime (benchmark) and decreasing our reliance on non-tax revenues. We will be asking the IMF, the World Bank, and other international financial institutions for technical assistance in these areas.

17. We are also pursuing steps to further enhance public financial and debt management. In this context, our public financial management strategy aims at the eventual introduction of a full Treasury Single Account (TSA) system at the Republican level and implementation of an electronic financial management information system. We have also adopted in 2010 a law on internal audit and state financial control. A registry of the gold and precious metals held by the Ministry of Finance has been completed, and these assets will be transferred to the NBT balance sheet as part of international reserves before the end of 2010. We are committed to prudent debt management, and will restrict our external borrowing to loans on concessional terms. To avoid potential problems vis-à-vis the requirements under the program, we are strengthening coordination with IMF staff to ensure that an appropriate level of concessionality is achieved for all new loans.

C. State-Owned Enterprises, Agriculture, and Data

State-Owned Enterprises

18. We are taking steps to address the problem of arrears in SOEs and put them on a sound financial footing. Some arrears reflect structural deficits in SOEs, others nonpayment of dues from government entities. Arrears remain a serious problem that could potentially jeopardize macroeconomic stability. We seek to address these problems urgently and ensure that these firms are subject to financial discipline going forward. For the near-term, we have ensured that the 2011 budget includes sufficient resources for all spending agencies to remain current on their obligations. Looking ahead, to enhance transparency and highlight any risks to public finance, we intend to complete a fiscal risk assessment report as part of the draft 2012 budget (benchmark).

19. The SOE Supervision Unit is making progress to becoming fully operational, with the help of the European Commission and IMF technical assistance. Hiring and retaining qualified staff remains difficult, however. The unit has assessed the financial performance of SOEs for 2009, and their 2010 financial plans. The unit has also prepared and published reports on SOE performance that are also published on the Ministry of Finance's website. By June 2011, all SOE's subject to review by the SOE unit (Ministry of Finance) will be required to publish 2010 financial statements and results of external audits conducted in line with accepted standards of auditing on the Ministry of Finance website. We will be looking to the international community for technical assistance to support these efforts.

20. Tajikistan Aluminum Company (Talco) has undergone an external audit of its 2006-08 financial statements, and the audit report and the financial statements together with the audit opinion have been published on the company's website (benchmark for end-December 2009). Talco Management Company will soon issue a tender for an external audit of Talco Management's 2008 and 2009 financial statements by a reputable international audit firm (benchmark for end-June 2010).

21. The second-largest SOE, Barki Tajik, will—with World Bank support—continue electricity tariff adjustments in order to achieve cost recovery by end-2011. In the meantime, the government will continue to work with donors to improve the social mitigation mechanism to ensure that the most vulnerable segments of the population have access to a basic minimum of energy services. Following up on the external audit of its 2007 accounts, Barki Tajik will continue to work with the World Bank on improving its financial management. An improvement in collection of payment arrears will be essential.

22. For the purpose of disclosure of beneficial ownership of all companies registered with the Ministry of Finance's agency for securities, we finalized the database of beneficial ownership of all companies listed with the agency, and published it on the ministry's website.

Agriculture

23. In June 2009 we adopted an action plan to resolve the cotton debt problem, and are proceeding with its implementation. All farm debt accumulated as of January 1, 2008, and all interest accrued on that stock since that time has been written off. Certificates legally discharging farmers from debt obligations to investors were distributed. As part of the action plan we encouraged all banks to apply the Tajikistan Agricultural Financing Facility methodology, developed by the European Bank for Reconstruction and Development, for the government financing scheme for the agriculture sector in 2010. In light of fiscal constraints, budgetary resources available for lending to the agriculture sector will be limited to resources that are paid back in 2011, and over the medium-term we will be looking to phase out budgetary support in this area. A precondition for having a private-sector led financing mechanism will be the ability to use land-use rights as collateral. We are working closely with the World Bank, Asian Development Bank, and other donors on the implementation of the action plan. We are also seeking donor financing for the agriculture sector to ensure that farmers have sufficient access to credit under the new mechanisms being developed. We hope our recent proposal for financing under Global Agriculture and Food Security Fund (GAFSP) will receive favorable support from the donor community.

Data

24. We plan to strengthen our national accounts and price statistics, with technical assistance from the regional IMF statistics advisor, who will coordinate closely with the STATCAP project led by the World Bank.

25. We will also continue to strengthen our debt data management framework, including by completing an inventory of government domestic debt and domestic and external debt of SOEs. This information will be published, together with a report on government and government-guaranteed external debt, in the 2011 budget documents. In addition, the NBT continues to strengthen the monitoring system of private external debt, and began publishing these data on the NBT website on a semi-annual basis starting as of June 2010—sharing this data on a quarterly basis with the Ministry of Finance.

IV. PROGRAM MONITORING

26. We will continue to monitor progress in implementing the program through quantitative performance criteria and indicative targets, as well as prior actions, and structural benchmarks set for 2010 and 2011. These are listed in the tables attached to the letter of intent. The technical memorandum of understanding which is also attached to this letter defines the quantitative targets of the program and their adjustors, and specifies reporting requirements. Completion of the fourth review under the ECF arrangement—which is envisaged for March 15, 2011—will require observance of the quantitative performance criteria for end-December 2010 and other relevant performance criteria, completion of the fifth review—which is envisaged for September 15, 2011— will require observance of the quantitative performance criteria for end-June 2011 and other relevant performance criteria, and completion of the sixth review—which is envisaged for March 16, 2012— will require observance of the quantitative performance criteria for end-December 2011 and other relevant performance criteria.

Table 1: NBT Reform Action Plan

Reform	Timing	Status
<i>GOVERNANCE</i>		
Close down the Cotton Debt Department at the NBT.	June 2009	Done
Appoint the NBT Board for a fixed term with 3 non-executive members.	June 2010	Done
Establish NBT Board Committees, such as an audit committee, chaired by a non-executive member of the NBT Board.	June 2010	Done
Create and publish on the NBT's website a register of commercial interests of NBT Board members and top management	June 2010	Done
Develop proposals to restructure the NBT' organizational set up	December 2010	
A draft revised central bank law substantially compliant with the recommendations of Fund staff should be approved by the President of the Republic and submitted to Parliament for enactment.	December 2010	
<i>AUDITING</i>		
External audits of financial accounts for FY ending April 2009 and for the 8 months ending December 31, 2009 to be completed.	September 2010	Completed
Continue semi-annual NIR reviews by an international audit firm at test dates under the ECF arrangement. Such reviews should be completed before the IMF Board meeting and the TOR for the reviews should be adapted as needed to ensure that (i) the auditor attends vault counts on the relevant test date; (ii) emerging issues are addressed; and (iii) previous recommendations are being addressed.	Prior action for the Board meeting	KPMG completed end-June NIR review in July.
Publish on its external website in a dedicated section the financial statements and audit opinion within 1 month from completion of the audit, also including all past audit reports.	Continuous	Completed

Reform	Timing	Status
Develop an internal regulation to define a formal policy for the selection and appointment of its external auditor. The policy should stipulate: (i) the composition of the selection committee, including participation by non-executive Board members; (ii) criteria for making the selection; (iii) a timeline for the tendering, bidding and appointment, ensuring the contracting of the external audit not later than 3 months before the year-end; and (iv) multi-year audit contracts.	September 2010	Done
Outsource—through a formal tendering process—to an external consulting firm the internal audit of the activities of (i) the international relations department, including foreign exchange lending and liquidity support; (ii) the domestic lending and liquidity support activities; and (iii) the management of foreign currency vault operations at headquarters. Ensure that external consultant contributes to capacity building in the Internal Audit Department.	April 2010	Done; an external consultant “International Auditing Company, Ltd.” was selected.
Plan and organize an external quality assurance review of the NBT’s Internal Audit Department by certified experts on its compliance with Institute of Internal Auditors (IIA) standards.	June 2011	
<i>ACCOUNTING AND OPERATIONS</i>		
Create a new base of the NBT balance sheets and continuously monitor their conformity with analytical data	June 2009	Recommendations of special audit of the NBT and end-December 2008 NIR audit incorporated. Revised balance sheet presented as part of regular annual audit.
Keep full records of adjustments made with regard to audited financial reports, and keep full records to confirm the data that the IMF publishes in its reports	Continuously	
Increase the number of sudden checks of cash available in the NBT’s head office and regional branches.	Continuously	
Develop a mechanism to transfer and share information	Continuously	

Reform	Timing	Status
between departments on any reclassification of items in the NBT's accounting balance sheet for the purpose of compiling the monetary analysis.		
Establish a register of the gold bars held in the NBT vaults, including gold owned by the Ministry of Finance. This register must include details on the serial number of the gold bars and the ownership. This register must be included in the scope of the NIR review, starting with the end-December 2009 test date.	March 2010	Registry of gold was completed in August 2010.
Take measures to create a centralized accounting system of the NBT by transferring all accounting functions to relevant departments and introduce software for centralized recording of transactions done by the NBT's regional branches.	June 2010	Requesting technical assistance
Include the issue of accounting and monitoring of the NBT balance sheet items in daily meetings of the working group. Include representatives of the internal audit and accounting into the working group		
Strengthen cash management by setting up basic structures which assure the segregation of duties between the front-office, back-office and accounting functions in order to mitigate operational risks.		

TAJIKISTAN: TECHNICAL MEMORANDUM OF UNDERSTANDING**April 19, 2011****I. INTRODUCTION**

1. This memorandum defines the quantitative performance criteria and the indicative targets and relative adjustors, and establishes the content and frequency of the data to be provided to IMF staff for the program monitoring relating to the program supported by an arrangement under the Extended Credit Facility (ECF)—which replaced the existing three-year Poverty Reduction and Growth Facility (PRGF) arrangement following the entry into force of the Executive Board’s decision of July 2009—under the request in the authorities’ Letter of Intent dated April 19, 2011.

II. QUANTITATIVE PERFORMANCE CRITERIA**A. Definitions and Concepts**

2. **Test dates.** Quantitative performance criteria are set semi-annually starting December 31, 2010 through December 31, 2011, and are to be met at the end of each period unless otherwise specified.

3. **National Bank of Tajikistan (NBT).** The NBT is the central bank of the country responsible for the formulation and implementation of monetary policy. For the purpose of the program, NBT includes all its central and regional offices.

4. **General government.** For the purpose of the program, “general government” includes the republican government, local (including municipal) governments, and the agencies included in the administrative classification of the budget. It excludes all other agencies not specifically listed, including but not limited to Barki Tajik and Talco.

5. **Foreign-financed PIP and related grants.** The foreign financed PIP is a program of investments in infrastructure and social sectors agreed by the general government of Tajikistan and its donors (including but not limited to international financial organizations). The program is fully financed by related grants and loans, and does not involve any additional financing commitment from the general government of Tajikistan. Related grants are grants provided by the donors financing the PIP for financing of projects included in the PIP.

6. **Domestic arrears** are defined as the general government expenditure that have not been paid after coming due as determined in the State Budget of the Republic of Tajikistan and other government documents regulating the execution of the Budget for ten business days.

7. **Concessional and nonconcessional debt.** Concessional debt is defined as debt with a grant element equivalent of 35 percent or more. The grant element of a debt is calculated using the commercial interest reference rates (CIRRs) plus a margin at the time of its contracting. For debts of an original maturity of 15 years or more, the average CIRR over the last 10 years will be used, while the average of CIRRs of the preceding six-month period will be used to assess the concessionality of debts with original maturities of less than 15 years. To the 10-year and 6-month averages of CIRRs, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 and more years. In general, the grant element is calculated as value of the loan minus present discounted value of future payments over the loan value (multiplied by 100). Present discounted value is sum of all future discounted payments (both amortization and interest), where the discount rate corresponds to the CIRR mentioned above. Nonconcessional debt is defined as debt without a grant element or with a grant element of less than 35 percent. The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation is performed by the authorities and verified by the IMF based on the data provided by the authorities.

8. **Valuation changes (program exchange rates).** For program monitoring, U.S. dollar-denominated components of the general government's and the NBT's balance sheets will be valued at the program exchange rate (SM4.4031 = US\$1.00; official exchange rate as of December 31, 2010). Other foreign currency denominated items will be valued at the respective cross rates between the program exchange rate of the U.S. dollar and current official exchange rates of the U.S. dollar against those currencies as of December 31, 2010. The SDR components will be valued at the program SDR exchange rate SDR = \$1.54003 (December 30, 2010). Official gold holdings shall be valued at US\$1,410.25 per troy ounce (December 31, 2010).

B. Quantitative Performance Criteria and Indicative Targets

Quantitative Performance Criterion 1: Ceiling on a cumulative flow of net domestic assets of the NBT for the year.

9. **Definition.** For the purpose of the program, net domestic assets (NDA) of the NBT are defined as reserve money at program exchange rates minus net foreign assets at program exchange rates of the NBT. The cumulative flow of NDA for the year is defined as a difference between end-of-period balances for a period under evaluation and the preceding end-of-the year balance, unless otherwise specified. Reserve money (RM) at program exchange rates is composed of currency in circulation (CC), required reserves (RR), other bank reserves (OBR), and deposits of nongovernmental nonbanks with the NBT (DNGNB). The value of the net foreign assets at program exchange rates of the NBT is calculated as the difference between NBT's claims on nonresidents and its liabilities to nonresidents. The

NBT's NDA comprise the following assets and liabilities: net credit to the general government, net claims on banks, credit to the economy, and other items net (OIN). OIN includes the foreign exchange revaluation and capital accounts of the NBT.

10. **Adjustor for changes in reserve requirement ratio.** The ceiling on a cumulative flow of NDA of the NBT for the year will be adjusted upwards (downward) when the required reserve rates (rr) on deposits in local and/or foreign currency (DB) are increased (decreased), resulting in a corresponding increase (decrease) of reserve money (RM).

NDA before RR change: $NDA = RM - NFA$

$RM = CC + RR + OBR + DNGNB$ where:

$RR = rr * DB$

DB – deposit base

rr – required reserve rate

Define: drr – change of required reserve rate.

DB – deposit base used for calculation of required reserves

$drr * DB$ – amount of upward (if $drr > 0$) or downward (if $drr < 0$) adjustment in RM

NDA after RR change $NDA = RM (+/-)drr * DB - NFA$.

11. **Adjustor for Ministry of Finance gold holdings.** The cumulative NDA flow is adjusted downward (upward) for any deposit (withdrawal of deposit) of Ministry of Finance's gold holdings with the NBT during the program period.

Quantitative Performance Criterion 2: Floor on a cumulative flow for the year of total net international reserves (in millions of U.S. dollars).

12. **Definition.** Total net international reserves of the NBT are defined as the difference between total gross international reserves of the NBT and total reserve liabilities of the NBT. Total gross international reserves of the NBT are defined to include NBT's holdings of monetary gold (defined as gold of London good delivery quality), including monetary gold owned by the Ministry of Finance, SDRs, convertible currencies in cash or in nonresident financial institutions that are readily available and any reserve position at the IMF. Also included are holdings of foreign currency-denominated securities issued by governments or central banks of OECD member states. Excluded are changes in the level of gross foreign reserves that arise from capital subscriptions in foreign financial institutions, non-liquid assets of the NBT, convertible currency denominated claims on domestic banks and other residents, assets in nonconvertible currencies, foreign assets pledged as collateral or

otherwise encumbered and the net forward position, if any (defined as the difference between the face value of foreign currency denominated NBT off balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents). Reserve liabilities of the NBT are defined as liabilities outstanding to the IMF and liabilities of the NBT to nonresidents with an original maturity of up to and including one year. A cumulative flow for the year of total net international reserves (in millions of U.S. dollars) is defined as a difference between the end-of-period balances for the period under evaluation and the preceding end-of-the year balance, unless otherwise specified.

13. **Adjustor for conversion of nonmonetary gold into monetary gold.** The cumulative NIR flow will be adjusted upward by the amount of nonmonetary gold held by the NBT that is converted to monetary gold, and the amount of nonmonetary gold held by the Ministry of Finance that is converted to monetary gold and transferred to the reserve holdings of the NBT.

Quantitative Performance Criterion 3: Zero ceiling on new lending and guarantees from the NBT to private sector (continuous quantitative performance criterion).

14. **Definition.** New lending from the NBT to the private sector is defined as loans extended by the NBT to domestic commercial banks, credit unions, credit associations, and microfinance organizations with a maturity of more than three months, and loans extended by the NBT to other domestic nonbank financial institutions or any other domestic entity other than the general government. Short-term liquidity loans to domestic commercial banks, credit unions, credit associations, and microfinance organizations with a maturity of up to three months are not included under this definition. Guarantees are defined as any guarantee extended by the NBT of principal or debt service payment for debt issued or contracted by private sector entities.

Quantitative Performance Criterion 4: Floor on the cumulative overall fiscal balance of the general government excluding foreign-financed PIP and related grants.

15. **Definition.** The overall fiscal balance of the general government is defined from below the line on a cash basis as the negative sum of:

- a. *the change in net claims on the general government of the NBT:* net claims on the general government of the NBT is defined as the net position of NBT loans and advances to the general government, NBT holdings of government securities (excluding treasury bills issued as part of the NBT recapitalization process), bank restructuring costs, and all deposits of the general government with the NBT (excluding the Ministry of Finance's gold holdings), counterpart deposits (which reflect balance of payments and/or general budget support from international financial institutions and other donors), and the privatization account (where proceeds from the privatization of state property are held);

- b. *the change in net claims on the general government of the rest of the domestic banking system*: net claims on the general government of the rest of the domestic banking system are defined to include the net position of the general government with respect to other domestic commercial bank assets (loans, overdrafts, cash advances, holdings of treasury bills or other securities) and liabilities (deposits, etc.). Treasury bills issued to commercial banks as part of the cotton debt resolution are excluded;
- c. *the change in net claims on the general government of domestic nonbank institutions and households*: net claims on the general government of domestic nonbank institutions and households are defined as treasury bills, bonds or other government securities held by nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other liabilities of the general government to domestic nonbank institutions or households;
- d. *the change in net foreign liabilities of the general government*: net foreign liabilities of the general government are defined as government debt to foreign sovereigns, and foreign financial and nonfinancial institutions. For this purpose, net foreign liabilities exclude liabilities that arose in the context of the externally financed PIP;
- e. *gross proceeds from the privatization of state property*: gross proceeds from the privatization of state property are defined as all receipts originating from the sale of the general government property; and
- f. *the change in gross arrears of the general government*: gross arrears refer to domestic or external arrears.

All changes will be calculated as the difference between end-of-period stocks, net of any valuation changes resulting from currency movements.

Quantitative Performance Criterion 5: Ceiling on general government wage and pension arrears (continuous quantitative performance criterion).

16. **Definition.** Arrears on general government and pensioners' pensions are defined as any shortfall in monthly disbursements of wages and pensions. These payments are defined as overdue if they have come due at the end of the month and remain unpaid for ten business days thereafter. To allow monitoring of the above defined arrears the government will provide data on actual wage payments, including a breakdown by local governments, as part of the monthly budget execution statements submitted to the IMF staff. The Agency on Social Protection and Pensions will provide quarterly reports and statements of their operations.

Quantitative Performance Criterion 6: Ceiling on contracting or guaranteeing of any nonconcessional external debt (continuous quantitative performance criterion).

17. **Definition.** The definition of debt, for the purposes of the program, is set out in Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416–(09/91); see below) and also includes commitments contracted or guaranteed and for which value has not been received. The debt limits apply to short-, medium-, and long-term debt contracted by the general government of Tajikistan, the National Bank of Tajikistan, and any other agency acting on behalf of the government, including but not limited to state-owned banks and state-owned enterprises that can issue external debt without a government guarantee.

18. **The definition of debt set forth in point No. 9 of the guidelines as revised on August 31, 2009 reads as follows:** “(a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.”

19. **External debt limits** apply to the contracting or guaranteeing of new nonconcessional short-term external debt (with an original maturity of up to and including one year), and to the contracting or guaranteeing of new nonconcessional medium- and long-term external debt (with original maturities of more than one year).

20. **Exclusions from the external debt limits.** Loans contracted for debt rescheduling or refinancing if the terms of the new loan are more favorable will be excluded from the debt limits. IMF credit is excluded from the external debt limits. The rollover of the existing guarantees will be excluded from the debt limits. If pledged reserves of the NBT were to be securitized, these amounts will also be excluded from the debt limits. The performance criterion on new nonconcessional short-term external debt will not apply to loans classified as international reserve liabilities of the NBT (liabilities of the NBT to nonresidents with an original maturity of up to and including one year). Normal import-related financing is excluded from the criterion.

21. **Valuation of debt denominated in currencies other than the U.S. dollar.** Debts falling within the external debt limits that are denominated in currencies other than the U.S. dollar shall be valued in U.S. dollars at the exchange rate prevailing at the time the contracting or guaranteeing takes place or at the exchange rate stipulated in the contract.

22. **Guarantee of a debt.** For the purposes of the program, the guarantee of a debt arises from any explicit legal obligation of the general government or the NBT or any other agency acting on behalf of the general government to service such a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or indirectly through any other obligation of the general government or the NBT or any other agency acting on behalf of the general government to finance a shortfall incurred by the debtors.

Quantitative Performance Criterion 7: Ceiling on disbursements of concessional external financing.

23. **Definition:** Disbursements of concessional external financing are defined as disbursements of debt with a grant element equivalent of 35 percent or more.

Quantitative Performance Criterion 8: New external payments arrears (continuous quantitative performance criterion).

24. **Definition.** External payments arrears are defined as overdue payments (principal or interest) on external debt contracted, guaranteed, or converted into interstate debt by the general government of Tajikistan or the NBT 30 days beyond the due date and/or applicable the grace period. This definition excludes arrears on debt subject to rescheduling.

Indicative Target 1: Floor on tax collections.

25. **Definition.** Tax collections are defined to include all taxes (and custom revenues) collected under the general government budget. Regarding internal taxation, the definition excludes any proceeds from loans, or other banking system credits, the issuance of securities, or from the sale of state assets. Custom revenues are defined to include customs duties and other taxes (including VAT) on international trade and transactions.

Indicative Target 2: Floor on social- and poverty-related expenditure.

26. **Definition.** Social- and poverty-related expenditure is defined as the sum of current and capital expenditures in the education, health, and social protection sectors as shown in the functional classification of the budget.

Indicative Target 3: Ceiling on gross equity sales and contributions for Roghun.

27. **Definitions.** “Gross equity sales” are defined as all sales of equity in the Roghun OJSC. “Contributions” are defined as all other transfers to Roghun OJSC, the government, or any other public entity for the construction of Roghun, *with the exception* of direct budget transfers. For purposes of the quarterly indicative target, gross equity sales and contributions will be measured as the difference between the end-of-period balance for the period under evaluation and the preceding end-of-the year balance in all accounts of Roghun OJSC with commercial banks and the NBT, and balances held by the government with commercial banks or the NBT on account of Roghun OJSC, plus the cumulative withdrawals from these accounts for expenditure purposes.

Indicative Target 4: Ceiling on the stock of NBT liquidity loans.

28. **Definition.** NBT liquidity loans are defined as short-term liquidity loans by the NBT to domestic commercial banks, credit unions, credit associations, and microfinance organizations with a maturity of up to three months. For the purpose of the quarterly indicative target, the stock of liquidity loans will be calculated as the average of the end-month stock for the three months during the period under evaluation.

III. REPORTING REQUIREMENTS UNDER THE PROGRAM

29. For program monitoring, the following data should be reported to the Middle East and Central Asia Department of the International Monetary Fund via the IMF Resident Representative’s office in Dushanbe.

Table 1. Data reporting frequency for program monitoring

Data	Frequency	Lag
1. NBT analytical balance sheet	Weekly	3 working days
2. NBT balance sheet	Weekly	3 working days
3. Commercial banks' and Kredit Invest balance sheets	Monthly	4 weeks
4. Auction results for NBT certificates and treasury bills	Weekly	1 week
5. Fiscal revenues, expenditures and financing of budget execution, and extrabudgetary funds	Monthly	4 weeks
6. Reports and statements from the Agency on Social Protection and Pensions	Quarterly	6 weeks
7. Arrears of budget entities and state-owned enterprises	Quarterly	4 weeks
8. Wage and pension arrears by all levels of governments	Monthly	4 weeks
9. Stocks, disbursements, guarantees, new contracts of external debt including terms and disbursement profile, including nonguaranteed external debt of state-owned enterprises	Quarterly	4 weeks
10. External arrears arising in respect of obligations incurred directly, guaranteed, or converted into interstate debt by the general government of Tajikistan or the NBT, including penalties or interest charges	Monthly	4 weeks
11. Liquidity loans and loans stemming from fulfillment of the lender-of-last-resort function extended by the NBT to the economic agents in Tajikistan (financial sector, nonfinancial sector, enterprises, individuals, and any other) specifying date of issue, amount of original loan, interest, term, schedule of repayment, currency, and any grace period	Weekly	1 week
12. Net and gross international reserves, including Ministry of Finance gold holdings, daily sales and purchases of foreign currency, and daily sales and purchases of foreign currency executed with an intention of influencing the exchange rate of somoni	Daily	1 working day
13. Foreign exchange spending of Roghun OJSC, total expenditures of Roghun OJSC, government transfers to Roghun OJSC, equity subscriptions by the public to Roghun OJSC, any other receipt of Roghun OJSC. Balances in all accounts of Roghun OJSC with commercial banks and the NBT and balances held by the government with commercial banks or the NBT on account of Roghun OJSC. Cumulative number of shares sold by denomination.	Monthly	4 weeks